



Electricity Supply Industry Expert Panel

Public Hearing

2 February 2012

Release of the Draft Report

- Released **15 December 2011** for public consultation - contains findings and recommendations designed to inform the development of a Tasmanian Energy Strategy
- At the heart of the Draft Report are **logical reform options designed to deliver improved competition and choice for Tasmanian consumers** – in response to Panel’s key finding that the main barrier to effective retail competition is a lack of competition at the wholesale level
- Also outlines the Panel’s findings on the key developments and trends in the electricity sector over the past decade, including recent pricing trends, the performance of the State-owned energy businesses and the impact of Basslink and Aurora Energy’s acquisition of the Tamar Valley Power Station
- Consultation key part of the process – Public Hearings and accepting written submissions until **17 February 2012**
- Final Report due to the Parliament on **31 March 2012**

The Panel's Task

In the broad, the Panel interpreted its Terms of Reference as requiring it to investigate and report on:

- **How and why the Tasmanian electricity sector is delivering the pricing and other outcomes that are currently being experienced; and how these outcomes compare with elsewhere in Australia; and**
- **Looking forward, what policy, regulatory, governance and structural reform options could be considered to underpin the efficiency of the sector in the future and how should these be evaluated and prioritised?**

The Panel's Objective Function

The electricity supply industry will make the **best contribution** to the **growth** and **development** of Tasmania, and to the economic **welfare** of Tasmanians, if it is operated on the most **economically efficient** basis possible.

The Panel's principal focus is the long term interests of Tasmania and Tasmanians

Energy Supply Industry Policy Objective

“To promote a safe, secure, reliable, efficient and sustainable electricity supply industry, capable of providing electricity services at efficient prices to Tasmanian households and businesses, over the long term”

Fundamentally based on **establishing** and **maintaining** the **market architecture** that will provide **incentives** for economically efficient outcomes.

Energy Supply Industry Policy Objective

Six outcomes, if achieved, will deliver this Policy Objective:

1. *An energy sector that is safe (N.B. This outcome is not addressed by Review)*
2. *Energy supply that is reliable and secure*
3. *An energy supply industry that is sustainable*
4. *An efficiently operating energy sector*
5. *A transparent and appropriate governance structure that manages energy supply risk*
6. *Prices that reflect the above objectives*

Taken together, provide a high-level 'benchmark' against which performance of the TESI – and outcomes the Panel has observed during its Review – can be measured.

The Panel's TESI 'scorecard'

Policy Objective	Observed outcomes	Reform priority?
Energy Supply that is reliable and secure		N

The Panel's TESI 'scorecard'

Policy Objective	Observed outcomes	Reform priority?
Energy Supply that is reliable and secure	★★★★	N
An industry that is sustainable	★★★	Y

The Panel's TESI 'scorecard'

Policy Objective	Observed outcomes	Reform priority?
Energy Supply that is reliable and secure	★★★★	N
An industry that is sustainable	★★★	Y
An efficiently operating sector	★★	Y

The Panel's TESI 'scorecard'

Policy Objective	Observed outcomes	Reform priority?
Energy Supply that is reliable and secure	★★★★	N
An industry that is sustainable	★★★	Y
An efficiently operating sector	★★	Y
Transparent and appropriate governance	★★★★	Y – Incremental only

The Panel's TESI 'scorecard'

Policy Objective	Observed outcomes	Reform priority?
Energy Supply that is reliable and secure	★★★★	N
An industry that is sustainable	★★★	Y
An efficiently operating sector	★★	Y
Transparent and appropriate governance	★★★★	Y – Incremental only
Efficient prices	★★	Y

The Panel's reform priorities

- Adjustment of the regulatory framework for determining the wholesale energy allowance for non-contestable customers – to better reflect prevailing and prospective supply-demand balance
- TVPS funded transparently and put on a commercially sustainable footing
- Reforms to address the absence of effective competition under the current wholesale market structure in Tasmania
- Following wholesale reform, pro-actively pursue full retail contestability, including further examining the possibility of selling Aurora Energy's retail business to the market
- Incremental governance improvements, driven by a greater Shareholder focus on SOEB objectives, efficient performance and accountability

What's in it for Tasmanians?

- Main benefits relate to dynamic efficiencies – by their nature difficult to model. Capturing dynamic efficiencies key driver for the Panel's proposed reform options
- The Panel's (conservative) modelling of reform to **non-contestable** pricing only suggests improvements in GSP in the range of \$150 million and \$240 million between 2011-12-2019-20. This equates to between \$600 and \$960 per household
- Beneficiaries of greater competition in the TESI at the individual level will be Tasmanian electricity customers. At the macro level, competition will be an enabler of a more prosperous Tasmanian economy

Next steps

- Submissions to Panel – due 17 February 2012
- Final Report to the Tasmanian Parliament 31 March 2012